

COMPETITIVE ENTERPRISE INSTITUTE

**Financial Statements for the Years Ended September 30, 2010 and 2009
and Independent Auditors' Report
Dated March 4, 2011**

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Independent Auditors' Report

Board of Directors
Competitive Enterprise Institute
1899 L St. N.W., 12th Floor
Washington, DC 20036

We have audited the accompanying statements of financial position of Competitive Enterprise Institute (CEI) (a nonprofit organization) as of September 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CEI, as of September 30, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hendershot, Burkhardt & Reed, CPAs

Hendershot, Burkhardt, & Reed
Certified Public Accountants
March 4, 2011

**Competitive Enterprise Institute
Statements of Financial Position
As of September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,452,305	\$ 1,335,560
Contributions Receivable	413,050	598,330
Prepaid Expenses	38,834	16,423
Other Assets	-	-
Other Receivables	-	-
Total Current Assets	1,904,189	1,950,313
Long Term and Other Assets		
Net Property and Equipment	113,878	129,287
Deposits	45,839	45,839
Total Long Term and Other Assets	159,717	175,126
 TOTAL ASSETS	 \$ 2,063,906	 \$ 2,125,439
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 7,191	\$ 11,072
Accrued Salaries and Benefits	81,790	139,538
Total Current Liabilities	88,981	150,610
 TOTAL LIABILITIES	 88,981	 150,610
Net Assets		
Unrestricted	1,680,901	1,699,755
Temporarily Restricted Net Assets	294,024	275,074
 TOTAL NET ASSETS	 1,974,925	 1,974,829
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,063,906	 \$ 2,125,439

See the accompanying Independent Auditors' Report and notes to the financial statements

Competitive Enterprise Institute
Statement of Activities
For the Year Ended September 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE			
Grants and Contributions	\$ 2,525,934	\$ 1,653,972	\$ 4,179,906
Interest	95,429	-	95,429
Rental Income	8,500	-	8,500
Miscellaneous	12,950	-	12,950
Publications	33,323	-	33,323
In-kind Contributions	6,091	-	6,091
Advertising	1,719	-	1,719
Unrealized Gain (Loss) on Investments	1,240	-	1,240
Net Assets Released From Restrictions	<u>1,635,022</u>	<u>(1,635,022)</u>	<u>-</u>
TOTAL REVENUE	4,320,208	18,950	4,339,158
EXPENSES			
Program Services	3,178,091	-	3,178,091
General and Administrative	373,979	-	373,979
Fundraising	<u>786,992</u>	<u>-</u>	<u>786,992</u>
TOTAL EXPENSES	<u>4,339,062</u>	<u>-</u>	<u>4,339,062</u>
Change in Net Assets	(18,854)	18,950	96
NET ASSETS, BEGINNING OF YEAR	<u>1,699,755</u>	<u>275,074</u>	<u>1,974,829</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 1,680,901</u>	<u>\$ 294,024</u>	<u>\$ 1,974,925</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

Competitive Enterprise Institute
Statement of Activities
For the Year Ended September 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE			
Grants and Contributions	\$ 4,384,114	\$ -	\$ 4,384,114
Interest	27,177	-	27,177
Rental Income	14,964	-	14,964
Miscellaneous	22,905	-	22,905
Publications	10,094	-	10,094
In-kind Contributions	22,969	-	22,969
Advertising	1,342	-	1,342
Unrealized Gain (Loss) on Investments	9,409	-	9,409
Net Assets Released From Restrictions	<u>576,109</u>	<u>(576,109)</u>	<u>-</u>
TOTAL REVENUE	5,069,083	(576,109)	4,492,974
EXPENSES			
Program Services	3,198,658	-	3,198,658
General and Administrative	398,421	-	398,421
Fundraising	<u>1,088,967</u>	<u>-</u>	<u>1,088,967</u>
TOTAL EXPENSES	<u>4,686,046</u>	<u>-</u>	<u>4,686,046</u>
Change in Net Assets	383,037	(576,109)	(193,072)
NET ASSETS, BEGINNING OF YEAR	<u>1,316,718</u>	<u>851,183</u>	<u>2,167,901</u>
NET ASSETS, END OF YEAR	<u>\$ 1,699,755</u>	<u>\$ 275,074</u>	<u>\$ 1,974,829</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

**Competitive Enterprise Institute
Statement of Functional Expenses
For the Year Ended September 30, 2010**

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 1,499,061	\$ 75,946	\$ 201,545	\$ 1,776,552
Rent and Lease Taxes	360,388	80,886	53,140	494,414
Consulting and Author Fees	209,432	72,109	82,034	363,575
Event Expense	214,506	34,531	34,722	283,759
Employee Benefits	221,139	8,974	31,663	261,776
Direct Mail	269	46	196,948	197,263
Payroll Taxes	116,168	8,020	14,471	138,659
Printing and Photos	79,609	1,894	39,557	121,060
IT Services	86,356	192	7,908	94,456
Temporary Assistance	54,128	6,700	27,669	88,497
Travel	59,301	34	13,173	72,508
Operating and Utility Expenses	42,426	7,182	6,440	56,048
Legal Fees	53,348	947	-	54,295
Books and Subscriptions	31,898	2,085	15,126	49,109
Grants	22,346	-	22,500	44,846
Equipment and Supplies	34,463	3,351	3,269	41,083
Accounting Fees	-	29,835	7,230	37,065
Leased Equipment	20,775	4,803	4,131	29,709
Postage	13,955	2,191	12,616	28,762
Depreciation	12,532	7,915	1,848	22,295
Licenses and Dues	3,741	10,724	5,457	19,922
Insurance	13,606	1,592	2,004	17,202
Conferences and Meetings	14,320	-	1,250	15,570
Payroll Processing	2,505	10,862	369	13,736
Maintenance and Storage	4,441	1,102	655	6,198
In-Kind Expense	4,141	925	1,025	6,091
Miscellaneous	2,722	1,133	167	4,022
Advertising and New Service	515	-	75	590
Total	<u>\$ 3,178,091</u>	<u>\$ 373,979</u>	<u>\$ 786,992</u>	<u>\$ 4,339,062</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

**Competitive Enterprise Institute
Statement of Functional Expenses
For the Year Ended September 30, 2009**

	<u>Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries and Temporary Assistance	\$ 1,514,459	\$ 90,744	\$ 326,552	\$ 1,931,755
Consulting and Author Fees	321,536	90,229	15,272	427,037
Rent	321,842	21,370	70,245	413,457
Direct Mail	632	-	295,784	296,416
Employee Benefits	181,655	19,559	39,484	240,698
Event Expenses	38,471	10,811	147,929	197,211
Travel	116,940	3,316	63,512	183,768
Payroll Taxes	134,604	11,254	19,574	165,432
Computers and IT Services	148,027	776	195	148,998
Printing	73,644	13,590	40,901	128,135
Grants	114,518	-	-	114,518
Professional Services	35,588	34,251	756	70,595
Books and Subscriptions	40,333	5,671	11,042	57,046
Postage	20,280	3,791	26,369	50,440
Supplies	36,446	8,484	2,312	47,242
Telephone	36,383	2,046	7,498	45,927
Licenses and Dues	2,355	18,563	6,792	27,710
Leased Equipment	20,314	1,384	4,359	26,057
Depreciation and Amortization	-	25,746	-	25,746
Insurance	20,916	922	3,530	25,368
Donated Goods and Services	-	20,957	2,012	22,969
Miscellaneous	5,998	9,532	-	15,530
Conferences and Meetings	8,395	-	4,809	13,204
Maintenance	2,680	5,412	17	8,109
Advertising and News Service	2,642	13	23	2,678
	<u>\$ 3,198,658</u>	<u>\$ 398,421</u>	<u>\$ 1,088,967</u>	<u>\$ 4,686,046</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

Competitive Enterprise Institute
Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in Net Assets	\$ 96	\$ (193,072)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	22,295	25,746
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(23,135)	176,824
(Increase) Decrease in Contributions Receivable	208,700	(20,830)
(Increase) Decrease in Other Assets	(286)	5,999
(Increase) Decrease in Prepaid Expenses and Employee Advances	(22,411)	11,185
Increase (Decrease) in Accounts Payable and Accrued Expenses	(3,881)	(172,595)
Increase (Decrease) in Accrued Salaries and Benefits	<u>(57,748)</u>	<u>(245,214)</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	123,630	(411,957)
INVESTING ACTIVITIES		
Acquisition of Property and Equipment	<u>(6,885)</u>	<u>(143,629)</u>
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	(6,885)	(143,629)
FINANCING ACTIVITIES		
Principal Reduction of the Capital Lease Liability	<u>-</u>	<u>-</u>
NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES	-	-
Increase (Decrease) in Cash and Cash Equivalents	116,745	(555,586)
Cash and Cash Equivalents, Beginning of Year	<u>1,335,560</u>	<u>1,891,146</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,452,305</u>	<u>\$ 1,335,560</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

Competitive Enterprise Institute
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies

Organization

Competitive Enterprise Institute (CEI) was incorporated in the District of Columbia in 1984 as a non-profit organization. CEI serves as a link between the academic community of free market scholars and the general public. CEI works to promote a better understanding of the values of a free society and the policies necessary for its survival by using policy analysis, public education, and litigation. These activities are funded primarily through contributions and grants from individuals, corporations, and foundations.

Method of accounting

The financial statements are presented on the accrual basis of accounting.

Cash Equivalents

CEI considers all money market funds and certificates of deposit to be cash equivalents.

Property and Equipment and Related Depreciation and Amortization

Property and Equipment are stated at cost and are depreciated using the straight-line method over three to seven year, with no salvage value. Leasehold improvements are amortized over the shorter of the lease period or useful life of the improvements. Expenditures for major repairs and improvements are capitalized and expenditures for minor repairs and maintenance costs are expensed when incurred.

Classification of Net Assets

The net assets are reported as follows:

- a) Unrestricted net assets represent the portion of expendable funds that are available for support of CEI's operations.
- b) Temporarily restricted net assets are specifically restricted by donors for various programs and future periods.

Public Support and Revenue Recognition

Current unrestricted net assets are those funds presently available for use by CEI at Management's discretion. All contributions with time or donor-imposed restrictions are recognized as temporarily or permanently restricted revenue that increases those net asset classes. When temporary restrictions are met, the contributions are transferred to unrestricted revenue. Donor restricted contributions whose restrictions are met in the same year are reported solely as unrestricted revenue. Contributions with no restrictions are recognized immediately as unrestricted revenue. CEI has no permanently restricted net assets.

Competitive Enterprise Institute
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies (cont.)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon the estimated time employees work on each program or activity, direct costs, or other reasonable basis.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

CEI is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. CEI has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

2. Certificate of Deposit – Security Collateral

A certificate of deposit, in the amount of \$80,055, held at SunTrust Bank is being used as collateral for the occupancy lease during 2010.

3. Property and Equipment and Accumulated Depreciation and Amortization

CEI held the following property and equipment as of September 30th:

	<u>2010</u>	<u>2009</u>
Furniture	\$ 40,691	\$ 38,801
Computers and Equipment	483,254	478,258
Leasehold Improvements	121,653	121,653
Leased Equipment	<u>34,435</u>	<u>34,435</u>
Total	\$680,033	\$673,147
Less: Accumulated Depreciation and Amortization	<u>566,155</u>	<u>543,860</u>
Net Property and Equipment	<u>\$113,878</u>	<u>\$ 129,287</u>

Depreciation and amortization expense was \$22,295 and \$25,746 for the year ended September 30, 2010 and 2009, respectively.

Competitive Enterprise Institute
Notes to the Financial Statements
For the Years Ended September 30, 2010 and 2009

4. Operating Lease

On March 28, 2002, CEI renegotiated its lease obligation for its current office space in the District of Columbia. The lease expired on November 30, 2010. The lease provided for annual increases in rent and 5.75% of any increase in operating costs. Rent expense was \$494,414 and \$413,457 for the year ended September 30, 2010 and 2009, respectively.

Under the terms of the previous lease, the lessor paid for some of the finishing costs as an incentive to enter into the lease agreement. Under generally accepted accounting principles, all lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred construction allowance in the statement of financial position.

5. Uncollectible Account Expense

During 2010, CEI wrote off \$208,161 of pledge receivables from prior periods. This amount was netted against Grant and Contribution income on the Statement of Activities. CEI believes that all other receivables are collectible, therefore, there were no allowances for uncollectible accounts at December 31, 2010.